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C O N F I D E N T I A L SECTION 01 OF 02 LUANDA 000746

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TAGS: AO ECON EFIN PGOV
SUBJECT: IMF APPROVES FIRST STAND-BY AGREEMENT FOR ANGOLA

Classified By: Ambassador Dan Mozena, Reasons 1.4(b) and (d).

¶1. (C) SUMMARY. On 23 November, the IMF approved a $1.4 billion dollar financing package for Angola, the first IMF deal to be signed with Angola since the end of the civil war in 2002 and the largest IMF financing package to date for a sub-Saharan African country during the current global crisis. IMF support is being given under a 27-month Stand-By Agreement (SBA) to support policy adjustments that aim to restore macroeconomic balances and rebuild international reserves. Angolan officials have tried to give the impression that the loan is condition-free, but behind the bravado, IMF officials expect Angola to comply with loan conditions, including increased transparency regarding oil revenues. The Angolans believe this SBA will boost international investor confidence. END SUMMARY.

IMF APPROVES FIRST LOAN TO ANGOLA

¶2. (U) The IMF approved on 23 November its first financing package with Angola since the end of the civil war. The $1.4 billion dollar deal will be delivered under a 27-month Stand-By Agreement (SBA) to support policy adjustments that aim to restore macroeconomic balances and rebuild international reserves. While the immediate goal is to mitigate repercussions of adverse terms of trade shocks, the program will also include a reform agenda aimed at medium-term structural issues on which long-term sector growth will ultimately depend. The IMF also hopes the loan will provide a foundation for non-oil sector growth over the medium-term, though it notes that deeper structural reforms are still needed to enhance private sector development.

ANGOLAN AND IMF VERSIONS DIFFER

¶3. (C) There is some disconnect, however, between how Angolan authorities and IMF officials portray the loan. The IMF has publicly commended Angolan authorities for their strong commitment to a comprehensive reform program that will address macroeconomic imbalances, which include restraining discretionary public expenditures, while providing adequate resources for social spending and vital infrastructure projects. More specifically, the SBA has been approved on the condition that the Angolan government makes the following structural reforms:

-- Improve fiscal transparency by publishing quarterly budget execution reports and ensure greater transparency and better oversight of major state-owned enterprises, especially state-owned oil company Sonangol;

-- Develop an institutional framework that de-links the fiscal stance from volatile short-term oil revenues and set up a sovereign wealth fund along the lines of the Norwegian oil fund to cushion against future oil boom-bust cycles; and

-- Develop a tax reform strategy to move toward a consumption-based tax system and to simplify the current tax system to improve efficiency and reduce evasion.

¶4. (C) Angolan Minister of Economy Manuel Nunes Junior, however, has portrayed the loan privately as unconditional and a sign of international confidence. In late October, Nunes told US officials that the package was the biggest loan in recent years to Africa, and that it would come with "zero conditionalities." Later in the conversation, though, he said that the IMF had asked the government to correct the imbalance between the official and parallel exchanges rates (which they did), and to set up a sovereign wealth fund. Most interesting, Nunes never mentioned anything about improving fiscal transparency. (COMMENT: Nunes said that President Dos Santos himself initiated the conversation with IMF officials about a potential financing package on the sidelines of the G8 summit in July. The process, Nunes said, went quickly after that with almost all details worked out by September. END COMMENT)

BITE WORSE THAN BARK

¶5. (C) Resident World Bank senior economist Ricardo Gazel (protect) brushed aside any disconnect between IMF and Angolan characterizations of the SBA. Gazel agreed that Angolan officials like to give the impression they do not need IMF assistance, but the reality is that they have been quietly following the IMF's advice for years. As an example, he said though Angola rejected an IMF loan in 2007, they

never stopped engaging with them, taking seriously cooperation with IMF missions for Article 4 consultations. Citing another example of Angolan bite being worse than its bark, he pointed out that Angolan officials love to criticize EITI as a "Blair initiative," but at the same time publish more data about their extractive industries than some signatory countries.

¶6. (C) Gazel does not believe Angola accepted the loan simply for the money, though they desperately need it. Gazel noted that the amount of the loan, spread out over a 27 month period, is actually not that significant given the size of Angola's economy. Instead, he believes they signed the loan to increase its international credibility and to build greater confidence. Therefore, Gazel concludes Angola will adhere to the conditions of the SBA, regardless of what some officials may say publicly.

IMF STILL UNDER SOME FIRE

¶7. (C) The IMF has come under criticism by some international watchdog organizations for agreeing to the loan. Global Witness in particular has been quite vocal, urging the IMF in October not to approve the loan without stringent conditions given Angola's high levels of corruption. "The IMF has a public duty not to bail out a corrupt government without requiring much greater transparency in return," said Gavin Hayman, Global Witness' Campaigns Director. Specifically, Global Witness expressed concerns regarding transparency in the oil sector, namely a lack of confidence in publicly published government data about oil revenues, and the opaque nature of Sonangol, which does not disclose fully its financial transactions. Gazel dismissed Global Witnesses arguments, saying Angola already publishes much of its revenues and public expenditures, and that NGOs often simply do not know how to analyze the data.

COMMENT

¶8. (C) Angola's engagement with the IMF represents a significant shift, given its highly publicized rejection of a proposed IMF loan in 2007 over IMF insistence on more transparency in the oil sector, which is a key condition of the current loan. Angola's newfound willingness to engage with the IMF is borne in large part out of necessity given the sharp decline in oil revenues, its impact on Angola's reserves (which plummeted from $20 billion to $12 billion), and the GRA's seriously over-leveraged position at the start of the financial crisis. Whether it reflects a genuine change of attitude towards greater transparency and adherence to international standards or proves ephemeral once oil revenues rebound remains to be seen.
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